

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the application of)	
SEMCO ENERGY GAS COMPANY)	
for the approval of an amendment to a natural gas)	Case No. U-18109
gas transportation contract with)	
WestRock California, Inc., f/k/a PCPC, Inc.)	
_____)	

At the November 7, 2016 meeting of the Michigan Public Service Commission in Lansing,
Michigan.

PRESENT: Hon. Sally A. Talberg, Chairman
Hon. Norman J. Saari, Commissioner
Hon. Rachael A. Eubanks, Commissioner

ORDER

On June 9, 2016, SEMCO Energy Gas Company (SEMCO), a division of SEMCO Energy, Inc., filed an application for approval of an amendment to a natural gas transportation service agreement with WestRock California, Inc., formerly known as PCPC, Inc. (WestRock).

In its application, SEMCO states that WestRock is one of SEMCO's largest customers and explains that WestRock's facilities are located within a few miles of an interstate natural gas pipeline. According to SEMCO, based on WestRock's proximity to the interstate pipelines in combination with their substantial annual consumption, WestRock is capable of bypassing SEMCO's distribution system. SEMCO asserts that, if WestRock were to bypass SEMCO's distribution system, WestRock would no longer contribute to the recovery of SEMCO's fixed costs and such costs would, therefore, be spread to all other SEMCO customers. SEMCO states that so

long as WestRock remains a transportation customer on SEMCO's system, it contributes to the company's fixed costs, which benefits all SEMCO customers.

SEMCO states that it recently negotiated an amendment to its natural gas transportation service agreement with WestRock and seeks Commission approval of the amendment consistent with Mich Admin Code, R 460.2031(1). SEMCO asserts that the amendment is the product of good faith negotiations. The amendment commences December 1, 2016. SEMCO explains that, because WestRock has the ability to bypass SEMCO's services, SEMCO negotiated rates and charges for natural gas transportation service that are different than those set forth in the company's filed tariff. SEMCO states that the amendment was negotiated at arms-length, does not impede competition, and reflects Michigan's need to retain and encourage economic development, particularly in the Battle Creek area.

SEMCO asserts that it possesses the system and administrative resources necessary to provide the transportation services required under the amendment and that none of the revised provisions of service under the amendment will cause SEMCO to change the general operations of its natural gas systems as those systems are currently utilized by other customers.

Finally, SEMCO states that it is not seeking ratemaking treatment in connection with approving the amendment, thus granting the requested approval will not have the effect of increasing the costs of service to other customers. The company states that it will address rate-making issues associated with any discounts associated with the amendment in its next general rate case.

After reviewing the application, the Commission Staff (Staff) recommends that the Commission approve the amendment. The Staff observes that the amendment outlined in the application is a result of good faith negotiations between SEMCO and WestRock. According to

the Staff, approving the amendment will not increase the rates for any of SEMCO's other customers and actually prevents other customers from having to pay the fixed costs to which WestRock contributes. The Staff adds that approving the amendment is consistent with Section 6a(5) of 1939 PA 3, MCL 460.6a(5). The Staff also recommends that, to ensure appropriate and lawful ratemaking practices, when SEMCO files its next rate case, SEMCO should address rate-making issues associated with any discounts related to the amendment.

Because SEMCO is not seeking ratemaking treatment in connection with the amendment, the Commission finds that *ex parte* approval may be granted under MCL 460.6a(1). In reaching its conclusion that the amendment should be approved, the Commission finds, in the absence of a reason to believe otherwise, that the parties protected their own interests and reached mutually beneficial bargains. Finally, the Commission notes that, if SEMCO seeks ratemaking treatment of any discounts associated with the amendment, the requirements of MCL 460.6a(5) must be satisfied.

THEREFORE, IT IS ORDERED that SEMCO Energy Gas Company's request for approval of an amendment to a natural gas transportation service agreement is approved.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so by the filing of a claim of appeal in the Michigan Court of Appeals within 30 days of the issuance of this order, under MCL 462.26. To comply with the Michigan Rules of Court's requirement to notify the Commission of an appeal, appellants shall send required notices to both the Commission's Executive Secretary and to the Commission's Legal Counsel. Electronic notifications should be sent to the Executive Secretary at mpscdockets@michigan.gov and to the Michigan Department of the Attorney General - Public Service Division at pungpl@michigan.gov. In lieu of electronic submissions, paper copies of such notifications may be sent to the Executive Secretary and the Attorney General - Public Service Division at 7109 W. Saginaw Hwy., Lansing, MI 48917.

MICHIGAN PUBLIC SERVICE COMMISSION

Sally A. Talberg, Chairman

Norman J. Saari, Commissioner

Rachael A. Eubanks, Commissioner

By its action of November 7, 2016.

Kavita Kale, Executive Secretary